

RESTORING RESPONSIBILITY

Laying a new foundation for economic growth and prosperity for working families will take a change in policies and programs to unleash the creativity and hard work of the American people. But to prevent our country from backsliding into the irresponsibility of the past, we need to change how Washington works. We have seen the consequences of fiscal recklessness, of tolerance for programs that no longer work or are outdated, and of a government that is most open to those with access and influence. The deficits, wasted resources, and special treatment squandered funds that could have been used to help Americans gain or retain a foothold in the middle class and enjoy what every family wants: a good job, a roof over their heads, excellent schools for their children, affordable and high-quality health care, and a secure retirement.

Over the past year, the Administration has begun the hard work of changing Washington. On his first full day in office, the President issued an Executive Order that: prohibits executive branch employees from accepting gifts from lobbyists; closes the revolving door between Government and the private sector that had given the latter undue influence; requires that Government hiring be based on competence and qualifications and not political connections; and orders every one of his appointees to sign a pledge abiding by these tough new rules. As the Administration undertook its efforts to rescue the economy, it issued restrictions on lobbying for financial stabilization and American Recovery and Reinvestment Act (Recovery Act) funds. In addition, the President also banned lobbyists from serving on agency advisory boards and commissions, bodies which had become dominated by special interests.

Believing that sunlight is the best disinfectant, the Administration opened up the doors of Government to the scrutiny of the American people. The President signed an Executive Order expanding public access to presidential records, decided voluntarily to disclose the names of visitors to the White House, and used new media technologies—from video feeds at previously closed-door meetings to web chats with high-ranking officials—to let the American people monitor the Government at work and interact with its leaders. In implementing the Recovery Act, the Administration continues to insist on an unprecedented level of transparency so that Americans can see where Recovery dollars are going as they are spent and the effect they are having. In addition, the Administration launched a comprehensive Open Government Initiative that is breaking down long-standing barriers between the American people and their Government. This drive to a more open government is speeding information to citizens, saving taxpayers' dollars, and erasing frustrating red tape.

While the economic crisis forced the President to add temporarily to an already record-setting deficit, he laid out a commitment to cut in half the deficit he inherited upon taking office. Moreover, he did so while being open and honest about our fiscal situation. The Administration's first Budget eliminated previous budget gimmicks that would have made the 10-year deficit number \$2.6 trillion smaller. Instead, the President insisted on presenting an honest budget to the American people. Thus, the 2010 Budget—for example—accounted for the costs of wars in Iraq and Afghanistan and provided a 10-year look into the future rather than a five-year one and

acknowledged the full costs associated with preventing the Alternative Minimum Tax from taxing more middle-class families. This same desire to evaluate Government performance accurately also motivated the Administration's line-by-line review of the Federal budget for programs that were ineffective, duplicative, or obsolete. Working with the military leadership and Secretary of Defense Gates, the President identified billions of dollars in defense savings for this year, canceling the new presidential helicopter and additional F-22 fighter jets.

The Administration also undertook a comprehensive effort to reform Government contracting—ending unjustified sole-source and cost-reimbursement contracts and pursuing other steps that will save \$40 billion a year by 2011—and the President issued an Executive Order cracking down on the \$100 billion in improper payments that go out from the Government.

The President also made a major change in the way Washington has done business in recent years by demanding that all entitlement and tax legislation be fully paid for (with the exception of temporary measures to address the economic crisis). He put this into practice, for instance, by insisting on fiscally-responsible health reform that not only did not add a dime to our deficits, but also reduced the rate of health care cost growth—the main driver of our long-term fiscal future. Finally, the President has championed Pay-As-You-Go legislation, which would require the Congress to fully offset the costs of any entitlement increases or tax cuts by finding savings elsewhere—helping to make this change in practice the law of the land.

Taken together, these steps to streamline what works and eliminate what doesn't, to open government to the American people, and to end special interest access are critical to instilling a new sense of responsibility for taxpayer dollars, rebuilding the connection between Americans and their Government, and putting the Nation back on a fiscally responsible path.

Restoring Fiscal Discipline

When the President took office he faced a deficit of \$1.3 trillion for that first fiscal year, a far cry from the budget surpluses predicted at the start of the previous administration. Since the 2010 Budget was released in February of 2009, unfavorable economic conditions and technical re-estimates have worsened the deficit outlook by \$2 trillion through 2019—the equivalent of 1 percent of GDP per year—with a deterioration of about \$200 billion in 2015 alone.

Looking out over the next decade, we are \$12 trillion deeper in debt than we were in 2001 because of three specific developments. The national debt is \$7.5 trillion larger by the end of this decade because of the failure to pay for two large tax cuts, primarily for the wealthiest Americans, and a new entitlement program. An additional \$3 trillion in debt is the result of inheriting the worst recession since the Great Depression. Our response to this recession, the Recovery Act, which has been critical to restoring economic growth, added an additional \$1 trillion to the debt—only 10 percent of the total.

Now, as we turn the corner from rescuing the economy to rebuilding it, it's time to once again take responsibility for our fiscal future. While it's essential that we do not stifle the momentum of our recovery from the current recession, we also cannot adequately grow the economy and spur job creation in the long term if we allow these deficits to persist. That is why, as the economy recovers, the Administration will take the steps necessary to restore discipline to our Nation's finances to put our country on firm fiscal footing. The Administration will:

Freeze Non-Security Discretionary Spending for the Next Three Years. Over the past year, an extraordinary surge in tax cuts and Federal spending helped stimulate macroeconomic demand and bring the economy back from the brink of a second Great Depression. Expanding the short-term deficit during a moment of economic crisis is widely recognized as necessary

by economists from across the ideological spectrum. Nonetheless, the ramifications of the large deficits we inherited and the response that was required to stop the economic freefall has repercussions both in the near term and in years to come in the form of higher debt and interest payments. As the economy recovers, we need to rebalance our spending priorities. That is why the President is proposing a three-year freeze in non-security discretionary funding in this year's Budget.

Establish a Bipartisan Fiscal Commission. To help put our Nation on a sustainable fiscal path, the Administration will work to create a fiscal commission charged with identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run. Specifically, the Commission is charged with balancing the budget excluding interest payments on the debt by 2015. The result is projected to stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers. The magnitude and timing of the policy measures necessary to achieve this goal are subject to considerable uncertainty and will depend on the evolution of the economy. In addition, the Commission will examine policies to meaningfully improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.

Require the Financial Services Industry to Pay Back Taxpayers. The assistance given the financial services industry to weather the crisis of the past year represented an extraordinary step that no one wanted to take, but that was necessary to prevent deeper pain to the economy. Yet the largest Wall Street firms have been both the source of extraordinary costs throughout the economy due to their excessive risk-taking, and the beneficiaries of the extraordinary measures taken to prevent a deeper financial crisis. While the expected cost of the TARP program has fallen by \$224 billion since the 2010 Mid-Session Review to about \$117 billion, shared responsibility requires that the largest financial firms pay back the taxpayer as a result of the extraordinary

action taken. Congress recognized that when it wrote the legislation authorizing TARP by requiring the President to propose a way for the financial sector to pay back taxpayers so that not one penny of TARP-related debt is passed on to the next generation. The Administration is therefore calling for a Financial Crisis Responsibility Fee on the largest Wall Street and financial firms that will last at least 10 years, but longer if necessary, to compensate taxpayers fully for the extraordinary support they provided. This fee would be limited to financial firms with over \$50 billion in assets. As it would be based on an institution's size and exposure to debt, it would also further the Administration's financial reform goals by providing a check against the risky behavior that contributed to this crisis.

Close the Carried Interest Loophole for Wealthy Investment Managers. The Administration supports reforming our tax code to ensure that the income earned by investment managers is treated the same way as income earned by middle-class families. Currently, a loophole in our tax system allows some investment managers to cut their tax bills by more than half by treating their earned income as capital gains—which is taxed at a 15 percent rate, far less than the marginal tax rate that would otherwise apply. By closing this loophole, we will recognize the “carried interest” earned by these investment managers for what it is—ordinary income that should be taxed at ordinary income tax rates. This measure would raise \$24 billion over the next 10 years.

Allow the Bush Tax Cuts for Households Earning More Than \$250,000 to Expire. In the last Administration, those at the very top enjoyed large tax breaks and income gains while almost everyone else struggled and real income for the middle class declined. Our Nation cannot afford to continue these tax cuts, which is why the President supports allowing those tax cuts that affect families earning more than \$250,000 a year to expire and committing these resources to reducing the deficit instead. This step will have no effect on the 98 percent of all households who make less than \$250,000.

Reduce the Itemized Deduction Write-off for Families with Incomes over \$250,000.

Currently, if a middle-class family donates a dollar to its favorite charity or spends a dollar on mortgage interest, it gets a 15-cent tax deduction, but a millionaire who does the same enjoys a deduction that is more than twice as generous. By reducing this disparity and returning the high-income deduction to the same rates that were in place at the end of the Reagan Administration, we will raise \$291 billion over the next decade.

Reform the Taxation of International Income and Eliminate Other Corporate Loopholes.

The American corporate tax code is riddled with inefficiencies and loopholes, including the fact that it allows companies to indefinitely defer the payment of U.S. taxes on foreign income while immediately benefiting from the tax deductions associated with these activities. It also allows many companies to take advantage of transfer pricing to shift income earned in the United States to lower-tax countries. The Budget will reform and end these practices.

Eliminate Funding for Inefficient Fossil Fuel Subsidies.

As we work to create a clean energy economy, it is counterproductive to spend taxpayer dollars on incentives that run counter to this national priority. To further this goal and reduce the deficit, the Budget eliminates tax preferences and funding for programs that provide inefficient fossil fuel subsidies that impede investment in clean energy sources and undermine efforts to deal with the threat of climate change. We are eliminating 12 tax breaks for oil, gas, and coal companies, closing loopholes to raise nearly \$39 billion over the next decade.

Recommit to Cutting the Deficit in Half by the End of the President's First Term.

Even though he entered office facing an historic economic and financial crisis, the President committed his Administration to cutting the deficit he inherited upon taking office in half by the end of his first term. Since then, it has become clear that the recession was worse than anyone thought

at the beginning of 2009, costing the Government even more in assistance and lost revenue. Nonetheless, the President remains committed to cutting in half by the end of his first term the deficit he inherited on January 20, 2009.

Streamlining What Works, Eliminating What Doesn't

Now more than ever, it's critical that taxpayer dollars are not wasted on programs that do not work, are duplicative, or are out-of-date. Allowing taxpayer dollars to be wasted in this way is an irresponsible use of funds and an irresponsible abuse of the trust the American people put in its elected leaders. Instead of accepting business as usual, we need to streamline programs that work and fix or eliminate those that do not. We need to instill a new responsibility for taxpayer dollars, and modernize government to deliver better services to the American people for less. To accomplish this, the Administration will:

Terminate or Consolidate Outdated or Ineffective Programs.

Too often programs and practices persist because of inertia. The President sought to change this mentality by having his Administration conduct a line-by-line review of the Federal budget. In his first Cabinet meeting, he challenged the assembled agency heads to find at least \$100 million in collective cuts to their administrative budgets, separate and apart from those identified in the 2010 Budget. They responded by identifying 77 cost-saving measures—amounting to \$243 million in savings through 2010. In addition, as part of the 2010 Budget, the President identified 121 programs for reduction, termination, and other savings amounting to \$17 billion in savings. While recent administrations have seen between 15 to 20 percent of their proposed cuts approved by the Congress, this year we were able to see 60 percent become law. Building on that, the President is proposing more than 120 savings proposals totaling approximately \$23 billion.

Freeze Pay and Eliminate Bonuses for Senior Political Appointees. The Administration values the essential work of our talented Federal employees, but at a time when millions of Americans are without work and millions more are going without bonuses and raises, the Federal Government too must cut back. Last year, the President ordered a freeze of White House senior staff pay. And for 2011, the Administration proposes to extend this pay freeze to all senior political appointees throughout the Federal Government and continue the policy of no bonuses for all political appointees.

Reduce Improper Payments. Each year, taxpayers lose billions of dollars in wasteful, improper payments by the Federal Government to individuals, organizations, and contractors who inadvertently or deliberately overbill the Government. In 2009, the Administration was able to identify improper payments totaling \$100 billion—a figure driven by improved detection and the significant increase in Federal outlays associated with the economic downturn and recovery. In response, agencies will be implementing an Executive Order the President signed at the end of 2009 to rein in improper payments. First, we will bring more transparency to these errors by creating an online dashboard of key indicators and statistics so that the public can access information on improper payments, view payment error rates by agency and program, and see a list of the most egregious actors. Second, we will hold agencies accountable for reducing improper payments while maintaining program access, through—among other steps—designating one Senate-confirmed appointee to be accountable to the President for meeting improper payment reduction targets and consolidating program integrity activities. Third, we will provide incentives for States, agencies, and recipients to report and reduce payment errors by using rewards—such as allowing States that reduce improper payments—to recoup more Federal grant dollars to cover administrative expenses, and use punishments, such as financial penalties on contractors who do not timely disclose an improper payment. Lastly, the Administration is launching the Partnership Fund for Program Integrity Innovation,

an initiative which focuses on improving service delivery, payment accuracy, and administrative efficiency in Federal assistance programs while reducing access barriers for beneficiaries.

Cut Waste in Contracting. Since 2002, Federal spending on contracts has more than doubled to more than \$500 billion. From 2002 to 2008, the value of contracts awarded without full and open competition increased by 129 percent—from \$82 billion to \$188 billion. The President has charged Federal departments and agencies with saving \$40 billion annually by 2011 through terminating unnecessary contracts, strengthening acquisition management, ending the overreliance on contractors, and reducing the use of high-risk contracts. In the first year of this effort, agencies have identified more than \$19 billion of savings in 2010—on track to meet the \$40 billion target. In 2011, the Administration will work with agencies on furthering their contracting reform efforts so that the \$40 billion target is met. In addition, we will explore ways to gain additional savings through leveraging the purchasing power of the Federal Government. We are also making significant investments in the acquisition workforce to make sure agencies have adequate capacity to oversee and manage contracts—and ultimately to save money and provide better services to the American people. The Department of Defense also will further reduce its use of high-risk contracts by 9 percent and take steps to ensure that military requirements for weapons are reasonable, program costs and schedules are realistic, and acquisition funding is stable.

Increase Accountability in, and Reduce the Number of, Earmarks. For too many years, the use of earmarks went virtually unchecked. Projects were inserted into legislation without any scrutiny or identifiable sponsor. Billions of taxpayer dollars were spent without examination by any committee or either branch of Congress. In 2007 and 2008, the Congress worked to end these abusive practices. Anonymous earmarks were eliminated and replaced with transparency measures so people can see who is spending their tax dollars and why. Yet, even with the changes, earmark overuse and abuse have continued. The

President has put forward core principles for significant earmark reform: earmarks must have a legitimate public purpose and be subject to public scrutiny; members of Congress must disclose publicly their earmark requests; and any earmark for a for-profit private company should be subject to the same competitive bidding requirements as other Federal contracts. The 2010 appropriations bills showed progress, with earmarks reduced in cost by more than 23 percent or more than \$3 billion. The Administration will continue to work with the Congress to reduce earmark overuse and abuse.

Rigorously Evaluate Program Performance. In order to drive evidence-based decisions about what works and what doesn't, the Administration is aggressively expanding its program evaluation efforts. In response to the Office of Management and Budget (OMB) guidance, 17 agencies submitted a total of 61 specific proposals ranging from new efforts to evaluate the efficacy of new investments in early childhood education to a proposal to determine which approaches to foreign assistance are most effective in reducing poverty in poor countries. In the Budget, the Administration will fund 23 of the most promising new program evaluations and strengthen evaluation capacity in other agencies. All major evaluations planned or underway will be posted online from the time they are started, so that agencies cannot hide negative findings.

Close the Technology Gap. Twenty years ago, when people came to work for the Government, they had access to the world's best technology. Today, Government employees often have better technology at home than at work. The Federal Government spends tens of billions of dollars on information technology (IT), but fragmentation, poor project execution, and the drag of legacy technology has not delivered the productivity and performance gains to government that are found when IT is deployed effectively in the private sector. Under the leadership of the Federal Chief Information Officer, the Administration is continuing its efforts to close the gap in effective technology use between the private and public sectors. Specifically, the Administration

will continue to roll out less intensive and less expensive cloud-computing technologies; reduce the number and cost of Federal data centers; and work with agencies to reduce the time and effort required to acquire IT, improve the alignment of technology acquisitions with agency needs, and hold providers of IT goods and services accountable for their performance.

Centralize Provision of Information Technology Services for Non-Military Agencies. As technology and IT management practices continue to evolve rapidly, it is critical that the Government is able to adapt to these changes to achieve greater efficiency and effectiveness. Following examples set by the Department of Defense (DOD), several State governments, and best practices in private industry, the Administration will establish one or more efficient, centralized IT service providers for non-military agencies. Centralizing Federal IT services will reduce duplicative and wasteful spending; reduce facility space usage; increase security; improve service delivery; and reduce energy consumption. It is projected that this approach could prevent billions in increased costs across the Federal Government over the next few years.

Hold Agency Leaders Accountable for Specific Goals. Government leaders must make hard choices about the priorities that matter most to the American people and then do what it takes to deliver on those objectives. This has historically been difficult, however, because senior political leaders tend to focus on policy development rather than on management and implementation. To encourage senior leaders to deliver results against the most important priorities, the Administration launched the High-Priority Performance Goal initiative. Building on this effort in the 2011 Budget, the Administration is requiring agency heads to commit to a limited number of priority goals that matter to the public. The goals must have ambitious targets to be achieved within 24 months without the need for new resources or legislation, and have well-defined, outcomes-based measures of progress. OMB will work with agencies to help them to

achieve their goals and spread this management approach throughout their organizations.

Revamp the Federal Hiring Process. High-performing companies and other forward-looking employers view their people as their key asset and are constantly re-evaluating and improving their approaches to attracting, motivating, and developing the best talent. However, the Federal hiring process currently takes over 150 days on average and requires far too many steps involving many different people. Often, government loses top talent to faster moving competitors. In the past year, most agencies have ended the “black box” of the Federal hiring process by notifying applicants of their status online at four steps in the process. To fix the hiring process, OMB and the Office of Personnel Management have initiated an effort to streamline hiring to achieve major reductions in the hiring times by the end of 2010. Going forward, we plan to increase the quality of applicants through innovative recruitment strategies, improved assessments of applicants, and proposing necessary regulatory and legislative changes to further streamline hiring processes while continuing to rely on the merit-based hiring system that has served the country so well.

Eliminate Unneeded Federal Real Estate from the Government Books. The Government Accountability Office in January 2003 identified Federal real property as a high-risk area of concern because of long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, over-reliance on costly leasing, and building security challenges. While the Government has made some progress to address these chronic challenges, the changes have been slow primarily because the Federal real property portfolio is based on an outmoded, outdated business model. Across the Government, billions of dollars in physical assets are not needed but remain on the Government’s hands. The Administration will pursue expanding the authority of agencies to retain sales proceeds while also proposing a five-year pilot to expedite the sale of real property by streamlining the process for select asset sales.

Opening Government Up to the American People

The President has been clear from day one in office: the Federal Government must break down the barriers between it and the people it is supposed to serve. Through an unprecedented Open Government Directive, he put transparency, participation, and collaboration at the center of the Government’s operations. In response, every Cabinet agency, along with the White House, has taken a range of steps to open government up to the American people. These include the release of information, such as the White House visitor logs; efforts to get citizen input and comment on executive orders; and the use of online technologies so the public can ask questions of their Government leaders. In addition, the Administration has moved affirmatively to reduce special interest influence on the Federal Government through, for example, restrictions on lobbying related to the Recovery Act and financial stabilization efforts and a ban on lobbyists serving on agency advisory boards and commissions, bodies which had become dominated by special interests.

Transparency not only strengthens the bond between citizens and their Government, it also boosts performance by strengthening accountability, supporting the identification of effective practices, stimulating idea flow, and motivating better performance. Online posting of performance data—including agency goals, performance trends, improper payments and IT projects—represents an important step toward creating a culture of accountability in government. Openness also can improve the quality of the services delivered to citizens. Transparent processes allow citizens to offer feedback on service quality to make government better, improving satisfaction levels. To further open up the government to the American people, the Administration will:

Publish More Government Information Online. To increase accountability, promote informed participation by the public, and create economic opportunity, each Cabinet-level and independent agency is working to make openness standard. Timely publication of information is an

essential component of transparency. Through the *Data.gov* portal—launched in May 2009 with just 47 sets of data—the public now can identify, examine, download, and cross-analyze more than 118,000 Government data sets. In 2011, the Government will expand *Data.gov* with previously unpublished, high-priority information, offered in open formats. Federal departments and agencies also will create open Government websites to serve as a gateway for access to their transparency activities.

Update Regulations to Allow the Use of New Technologies. Improvements in technology, in many places, have outpaced the regulations put in place to govern its use. In some cases, those regulations never anticipated the advances made. In response, OMB, in consultation with the Chief Technology Officer, will review Government-wide information policies, such as the Paperwork Reduction Act and the Federal cookies policy, which may need updating or clarifying to allow agencies to utilize new technologies that fully promote open government.

Launch New Tools to Track Regulations. The Federal regulatory process is opaque, yet critically important to the economy and lives of Americans. Greater transparency will help to break down barriers to participation in the government and understanding of its actions. The Administration will launch a new regulation tracking portal to make it easier to track specific regulations under review—where they are in the process, what the key deadlines are, and when the review will be completed. The public also will be able to track rules in the aggregate by agency, to see which have been identified as economically significant, and to link to sites where comments can be offered to help shape the final rule.

Make It Easier to Track How Taxpayer Dollars Are Spent. For too long, Americans have been in the dark about how their tax dollars are spent. They pay their taxes, but have no clear, concise way to track how and where the money is spent and what it accomplishes. The Administration is committed to pulling back the curtain on Government spending and will launch a new tracking tool with daily updates that will provide citizens with the ability to see aggregate spending by agency and also by geographic area. A new search engine will allow the public to customize their information by location, by agency, or by timeframe. This innovative development will allow people to have a greater understanding of how their Government works, and hold officials accountable for responsible spending decisions.

Create an Online Citizen Engagement Platform. With the growing number of social media tools available, citizens are demanding more engagement with their Government in new, innovative ways. The Citizen Engagement Platform (CEP), a joint collaboration between the General Service Administration and OMB, will increase the Government's ability to interact and collaborate with citizens and provide a simple, cost-effective vehicle for agencies to access tools and guidance to be successful in those endeavors. The CEP will build on pilots launched last year by continuing to identify new technology applications to enable intra-agency and interagency collaboration and create a coordinated process for identifying tools and eliminating the redundant work presently carried out by agencies implementing new social media tools.